BRITISH CHAMBER OF COMMERCE IN HONG KONG

2010-2011 BUDGET PROPOSALS SUBMISSION

January 2010

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Introduction

The British Chamber of Commerce in Hong Kong submits this paper on an annual basis for consideration by the Hong Kong Government as part of its annual budget preparation process. The members of the British Chamber of Commerce ("**BCC**") employ in the region of 10% of all workers in Hong Kong and it is for this reason that it takes its input to the annual Hong Kong Budget very seriously. Whilst there are signs that the worst of the global economic downturn may have passed, what lies ahead remains uncertain. The BCC fully appreciates the challenges that have faced the Hong Kong Government in managing its economy since the last budget which was set against a situation of gross uncertainty.

As is well known, Hong Kong has prospered in recent years through acting as the business integrator between China and its Global Trading partners. But with the prospect of the vibrant growth and tempo of the economy of Mainland China at its back door but a flat year in its principal global markets, Hong Kong is now faced with a lack of symmetry in the forces that it will have to manage over the short term. This may require an asymmetric approach.

On one hand Hong Kong will need to overcome the challenge of convincing China of the added value that it brings to the motherland at a time when the traditional partners are firmly in recovery mode. On the other hand it will also need to convince those traditional partners that Hong Kong is still relevant to their trade and investment activities in this part of the world. This will require vision in the medium and longer term to create the policies that will keep Hong Kong ahead of its rivals. The Government must remain ready, and be willing, to deploy the significant fiscal reserves that Hong Kong has accumulated from years of previous strong economic performance to deal with or take advantage of challenges as they occur.

A number of other governments internationally, and in the region, have announced aggressive fiscal packages to contribute positively to their GDP growth. Additionally, a number of governments are targeting tax havens, to retain their own tax revenues. The Chamber urges the Government to communicate any hint of recovery very cautiously and not to withdraw any financial crisis support at this delicate time and to go beyond the 2009-2010 Budget commitments and post-Budget supplemental commitments and deploy even more of its reserves to the same end now.

Hence, in the forthcoming Budget we would urge the Government to continue to focus on measures to enable businesses and individuals to recover from the recent financial turmoil and facilitate economic activity. The overall aim should continue to be to reinforce competitiveness and preserve and instill confidence in

Hong Kong's business community. Measures must also be taken to help unemployed and low income groups, especially those in the New Towns. We should be looking to the delivery of measures to create and support the traditional pillar industries that have defined Hong Kong over the last few years, as well as the six new pillars set out in the 2009 Policy Address: the four pillars in particular will be critical to the long-term prosperity of Hong Kong.

Current fiscal outlook

Notwithstanding the current economic environment the fiscal position of the Government remains very strong, with in excess of HK$455bn in fiscal reserves as at the end of November 2009. Despite this, it is likely that the Government will generate a small surplus in the current year, as opposed to the large deficit previously forecast.[1] Baring any downturn in the Hong Kong economy, a surplus in 2010/11 is also possible. Despite the unexpected improvement in the Government's fiscal position during the year, in the forthcoming budget we would suggest that the Government should resist requests to provide major give-aways or concessions and instead focus on measures to enhance Hong Kong's competitiveness, encourage new employment opportunities and to assist those experiencing real economic hardship. While the BCC would suggest that the tax rates and personal allowances should be maintained at present levels, we hope that the Financial Secretary will provide insights into the future plans in this area given the Chief Executive's previous commitment to reduce the headline profits tax rate to 15%.

The development of Hong Kong and integration with the Mainland

There are a number of areas that will define Hong Kong over the coming years. These include the role that Hong Kong will play in the development of the Mainland including, in particular, the Pearl River Delta ("PRD"), as well as certain domestic issues that the territory faces, including:

- Addressing unemployment among younger under-educated and less qualified social groups. How the existing four and six new pillar industries can and will help address the needs of this section of our community is vitally important for the longer term "harmony" of Hong Kong.
- The ageing population including, especially, the ageing of key sectors of the work force such as in the construction sector, where the average age is 45, as well as the increasing number of retired persons in the community.
- Decline in international and national business skill sets (English and Putonghua).

[1] A budget deficit of HK$39.9bn was predicted for 2009/10 in the Medium Range Forecast included in the 2009/10 Budget delivered on 25 February 2009. Whilst it is difficult to predict at this stage what the actual outturn will be early indications suggest that a significantly lower deficit than that previously forecast will arise. Whilst some shortfalls in rates and salaries tax as compared with the initial forecasts are likely, the Government is currently enjoying much stronger than forecast stamp duty collections thanks to the strong and active property and stock markets over the last few months. Better than expected land revenues and profits tax collections may also arise. The traditional savings in forecast expenditure are also likely to be partly or wholly offset by additional expenditure measures that have either already been or may in due course be announced.

- Improving the environment in Hong Kong.
- Continuing social and political unrest arising from the constitutional development of Hong Kong.
- Preserving Hong Kong's position as the leading financial services hub in the region.
- The delivery of the ten 'megaprojects' in a timely manner.

Specific consideration should be given to how the budget can be used in conjunction with other policy measures to stimulate the six new pillars that the CE has spoken of. It is important if the hope for these sectors is to be realized that a broad range of measures is adopted to facilitate their development.

There are also many other global and international factors that could impact on Hong Kong's future economic well being and development. These include matters such as: the state of the health of the global economy; changes in the traditional balances of economic power and trade flows; and issues pertaining to climate change and Governments' reactions to those which will undoubtedly have economic consequences. The future development of China herself will also have implications on Hong Kong.

The above are long term policy issues and a discussion of them is beyond the scope of this submission. At this stage we would however offer the following observations on certain of these challenges.

Addressing the poverty/wealth gap

A combination of poor education, unemployment, poverty, crime and other such factors can obviously lead to serious civic issues.

The Government has been alerted to the serious social issues that have emerged over time in the new towns that have been built in the New Territories. Tin Shui Wai as an example is prone to family tragedies because of its remote location, limited employment opportunities, and high density of public housing estates. Some would also argue that the large number of new immigrants from Mainland China in the area, struggling to adjust to the different cultural and social dynamics of Hong Kong, also contributes to the problem. An analysis of the distribution of unemployment suggests that particularly in the younger age groups the bulk of this is to be found in the New Towns.

The Chamber fully supports the efforts that the Government has started to make in dealing with the issue of the low income groups and the unemployed. However, we are concerned that without significant additional initiatives and investment to tackle the problems of poverty and unemployment, especially amongst the young, there is a danger that this could become a much bigger problem and ultimately threaten the social stability of the territory and obstruct progress towards sensible electoral reform.

Measures that we believe should be considered in this regard include:

- Incentives to encourage investment and start-ups by private business in the New Towns to create job opportunities for the local residents.

- Consider possible ways of relocating more public sector jobs to the New Towns.
- Investment in retraining the unemployed living in the New Towns, starting with the delivery of proper ability assessment and training. This in turn should lead to the natural creation of employment opportunities close to the New Towns where much of this newly trained workforce could be attractive to business investors. In other jurisdictions this has been carried out by the private sector working with government agencies to deliver both assessment and training services. It will require funding but in the view of the BCC this should have a high priority in the short and medium term expenditure profiles; and
- When considering measures intended to stimulate the development of the six new pillars, particular attention should be given to ways in which these could be targeted to stimulate and encourage job creation opportunities in the New Towns.

Environment

The BCC has commented at length in previous submissions on this topic and thus we will not repeat what we have said before here, other than to note in summary that:

- Both the Government, and the wider community, should view environmental improvement in Hong Kong as an investment, not a cost.
- Low carbon initiatives should be adopted as part of the strategy for enhancing the economy;
- Environmental protection and climate change initiatives should be wholly integrated into plans for infrastructure development.
- There should be greater recognition of the strong link between air quality and both public health and tourism; and
- A wide range of taxes, fines and incentives, such as the plastic bag levy and other such initiatives, should be introduced to change behaviours to improve Hong Kong's environment. We would, however, urge that such measures be more fairly applied than the plastic bag levy has been to date.

In regard to the above, we note the Government is taking steps to move forward on environmental issues. For example, since our previous budget submission was submitted we note that the Government has consulted the public on the Air Quality Objectives and Water Quality Objectives, both of which relate to the health and well being of our community. There has also been recognition of the need to integrate carbon considerations into infrastructure and not just buildings alone, and note that enhanced energy efficiency requirements are coming into effect. We also applaud the establishment of the HK Green Building Council, and hope that this will have tangible benefits in terms of reduced energy usage and carbon reductions.

Enhancing Hong Kong as a global financial centre

We have commented in previous submissions on the importance of measures to enhance Hong Kong's role as a global financial centre. There is still much that can and should be done in this area.

For example:

- There remains an urgent need to modernise the Companies Ordinance in Hong Kong. Although there is a Companies Ordinance review underway, the Chamber wishes to see this speeded up and expanded to include consideration of the Companies Rescue Bill provisions.
- Despite previous statements of the desire to develop Hong Kong as a centre for Islamic finance, it is disappointing that the necessary changes to Hong Kong's tax regime required to facilitate this have still not been made to date.
- If Hong Kong is to become a leader, the needs of the financial sector need to be continually monitored and catered for. Hong Kong needs to ensure that sufficient office space is available to house these organizations, especially with increased competition and availability of such space from Singapore, and in future from Shanghai. The lack of planned sites over the next 5-10 years could negatively impact Hong Kong.
- The Government and the banking sector should continue to work with the Chinese authorities to seek further measures to promote Hong Kong as a centre for RMB banking. In this regard, the Chamber welcomes the announcement by the State Council of China in April 2009 to introduce a Pilot RMB Trade Settlement Scheme, which will promote Hong Kong's role as an offshore RMB Settlement Centre and international financial centre serving as a bridge for money flows between China and the rest of the world.
- More needs to be done to encourage use of Hong Kong issuers to issue RMB denominated bonds (for example a 50% or full reduction in Profits Tax on income from such bonds). Additionally, more should be done to encourage the use of Hong Kong for internationalisation of the RMB in terms of use as a trading currency, by allowing RMB Letters of Credit facilities, and extending RMB banking beyond the 400 companies having RMB banking facilities in Hong Kong.
- As economies improve and the financial services sector in different locations recover, competition for skills will increase. Hong Kong must ensure it maintains its attractiveness as both a place to work and establish businesses. We should seek to increase skills rather than allow a drain.
- Consideration should be given to other sectors in which Hong Kong could establish itself as a financial centre. An example of this would be to position itself as a captive insurance centre. Currently Bermuda dominates in this sector but Singapore is increasingly competitive. Introducing an insurance regulatory approach that is friendly to captives could be a first step. By doing this the Government would attract not only the captive insurance sector, but prospectively also the reinsurance and mainstream insurance sectors which collectively could generate significant employment and investment opportunities.

The ten 'mega projects'

The delivery of the ten 'megaprojects' will be a cornerstone to Hong Kong's development over the next few years. Given the magnitude of the works proposed, the projects must be delivered in a timely and properly structured manner. Serious economic loss could occur through poor coordination. In this regard, we would suggest that the Government should consider the formation of a Project Coordination Office to help ensure successful delivery and execution of the projects. Such an office could be helpful in:

- Providing overall coordination between the projects to ensure that coordination is centrally controlled, to ensure that economic loss is avoided and to assist in ultimately providing a coordinated transport infrastructure for the whole PRD Region.
- Coordinating the importation of labour and helping to streamline the whole application process.
- Coordinating environmental matters and encouraging close cooperation on all environmental protection matters across all of the projects.
- Helping to promote the development of the construction industry by promoting its image; and
- Providing advice on how to develop a sustainable construction industry for the long term benefit of Hong Kong.

In addition, while the BCC acknowledges the spending by Government over the next ten years on the megaprojects, we would caution that this should not be seen as a "one off" stimulus, but rather as a necessary 'catch up' in infrastructure investment after ten years of under investment. In addition, we would suggest that Government urgently identify and earmark spending for the next tranche of major infrastructure projects to ensure 'super connectivity' with the Greater PRD, the PRC and global markets.

Healthcare

We welcomed the announcement that HK$50 Billion had been earmarked as a reserve for the future healthcare scheme in whatever form it might take. However we note that the money has not yet been committed nor has a putative healthcare strategy been outlined for the community. It is vital that the community becomes engaged at the earliest opportunity and that there is clarity in how the future healthcare system is to be funded and delivered in a cost effective manner.

The ageing of the population in Hong Kong is certainly an issue and one which probably is best dealt with through community delivered home help measures reinforced by specific upgrades of facilities such as community centres which deliver the full range of services needed by the older generation. These services would include IT, canteen facilities, district nurses in attendance, television and other entertainment facilities. Easy access particularly for those living in the countryside in the New Territories and the Islands is also an issue that requires thought and recurrent funding.

Medical services were included among the six new pillars proposed by the CE. Whilst some progress has been made in this area through the offering of four new sites for hospitals, we believe that it is important the government does a lot more than offering land for use if the vision conceived by the CE is to be realised. In particular, consideration needs to be given to how to bring down selectively the protectionist barriers in the medical sector that prevent foreign professionals from practicing in Hong Kong. We recognise the importance of ensuring that the calibre of medical practitioner operating in Hong Kong is maintained. However if this challenge is not addressed the current high cost of medical services and limited supply of professionals will remain permanent obstacles to growing Hong Kong's medical services sector in an internationally competitive way.

Civil Service pay

The debate about civil service pay and its relationship with private sector pay has been, and remains, intense. We have no intention to re-iterate the arguments on either side in this paper. However, at a time when:

- The economy is likely to remain volatile.
- The Government is under pressure from all sides on numerous issues; and
- Pay increases in the private sector are constrained for many reasons.

the Chamber is concerned that Civil Service pay rises are also kept in check. The Government more than ever needs to take into account sentiment in the private sector and ensure that civil service pay levels do not cause further discontent in the business community.

Small and medium sized enterprises (SMEs)

The Chamber acknowledges that in challenging times, job creation is important; however with 85% of Hong Kong's GDP derived from SMEs, job retention, particularly within SMEs, is critical to Hong Kong's economy at this time. The Chamber believes that the Singapore government's 'Jobs Credit Scheme' was a bold initiative to encourage employers to preserve jobs in a downturn. An identical scheme would not be appropriate for Hong Kong, but we encourage consideration of whether an equivalent scheme tailored to Hong Kong's unique needs could be created.

As a Chamber with many SME members, we are conscious that many SMEs are still in need of assistance from the Government to face the present business challenges. Due to the effects of the global financial crisis many Hong Kong SMEs have been reluctant to advance new entrepreneurial ventures or invest in research and development. This will have a significant medium to longer term consequence for the economy. Direct Governmental support now to allow SMEs to build up their financial reserves will help SMEs weather the storm and also provide the financial platform and foundation for Hong Kong's SME-scale entrepreneurs to seize new and unique opportunities, which could yield a significant return to the Hong Kong economy.

Based on feedback from our members, the Government's SME Loan Guarantee Scheme (LGS) and Special Loan Guarantee Scheme (SLGS) have aided a large number of SMEs through the recent economic turbulence. Indeed, the recent decisions by the Government to extend the lending ceiling of a number of participating lending institutions and the application period from 31 December 2009 to 30 June 2010 is a reflection of the success of the SLGS schemes. That said, more could still be done to help to facilitate the flow of credit to SMEs, through waiving fees and further increasing the guarantees for Government-backed loans, reducing the red tape involved and improving the transparency of the claim process (e.g. standard documentation and claim processing times etc). Indeed, with the SLGS set to expire on 30 June 2010, the Chamber would strongly encourage the Government to extend and enhance the SLGS scheme by at least one additional year. We would also encourage the Government to reassess the scope of the present LGS which has only limited application. Specifically, we would recommend expanding its scope beyond Business Installations and Equipment and Working Capital Loans to allow revolving facilities (e.g. overdraft facilities and revolving letter of credit lines), which could be utilised to support trade finance activities.

We would also encourage the Government, during these still difficult times, to consider additional incentives to support SMEs to open and stay open, grow and hire new staff, including the provision of grants, rebates and other financial and tax incentives to encourage SMEs to add new and keep existing employees and to help SMEs with good ideas to grow and expand. In particular an exemption of Profits Tax for the first three years of individually owned (i.e. unincorporated) businesses, where the assessable profits are below HK$5m in each year would be welcome. Additionally, consideration of a significantly discounted Profits Tax for all privately owned SMEs, older than three years, where the Assessable Profits do not exceed HK$5m. These initiatives would enable a deferral of provisional profits tax installments and a commitment to repay refunds due promptly in cash, would provide immediate and necessary financial assistance to allow many SMEs to build up a 'war chest' to weather the challenges and retain their employees.

In line with the Government's agenda to develop Hong Kong into a knowledge-based economy, the Chamber also sees significant benefit to providing specialised support to SMEs operating within the six key industries identified by the Government for focused development. Such support would not only help those industries which are still at their infancy achieving critical mass, but would also aid more established businesses through the present economic times.

Tax reform measures

Tax reform is important to the long-term sustainability of Hong Kong. The medium to long-term goal for the Government should be to place less reliance on sources of revenue that are susceptible to external factors, while at the same time widening the tax base. It is also vital for Hong Kong to balance the need for reform and to ensure that revenue collection is protected and enforced with the need to maintain the competitiveness of the tax system.

So far as the competitiveness of the tax regime is concerned, while the Government could afford to reduce headline tax rates this may not be the appropriate approach. Rather, maintaining rates at current levels and providing targeted incentives, such as incentives to promote the six pillar industries, enhanced tax deductions for Research & Development activities, increased tax deductions for expenditure on self-improvement training, and enhanced tax relief for energy efficient capital expenditure, may be more effective.

There are also a number of more specific points that we would like to note in this area:

- **Source of profits** – while the Chamber welcomes the long awaited revised guidelines on the "source" of profits contained in the IRD's Departmental Interpretation and Practice Note No. 21 (revised Dec 2009), we are concerned that the revised guidelines may result in more, rather than less, disputes between the IRD and taxpayers.

- **Tax evasion** – the IRD should continue to remain vigilant in combating tax evasion and avoidance in Hong Kong, although as we have previously noted unduly aggressive tactics that may harm Hong Kong's reputation as a simple and attractive tax regime should be avoided. Improving the statutory framework in line with the FATF recommendations, will assist Hong Kong in this regard. The monitoring of members of professional institutes is also a necessary part of this process. Registration of Trust and Company Service providers to ensure that fit & proper persons run them is also necessary.

- **Comprehensive Double Tax Agreements (CDTAs)** – we fully support the Government's desire to increase the number of CDTAs between Hong Kong and other jurisdictions, including as many of our major trading partners as is possible. The goal should be to conclude CDTA negotiations with at least 12 partners, so that Hong Kong can be "white listed" under the G20 initiative in respect of jurisdictions implementing the internationally agreed tax standard. In this regard, the Bill to introduce the necessary legislative changes was gazetted on 15 January 2010, the proposed safeguards to protect taxpayers from abuse of the application of the more liberal 2004 OECD Exchange of Information ("EoI") provisions to be contained in an Inland Revenue Rule ("IRR") are subject to "positive vetting" procedures by the Legislative Council. We believe that having the appropriate safeguards to prevent abuse and protect taxpayers' rights is vitally important, and in this regard have concerns on the current draft of the proposed IRRs, especially the ability of the Commissioner of Inland Revenue to waive the safeguards in any particular case. However, we recognise that any further delay in the "vetting" of the IRR and the IRO amendments could preclude Hong Kong from moving ahead with CDTA negotiations.

  It is hoped that DTA negotiations will be able to proceed with the UK, one of Hong Kong's major trading partners as soon as the legislation is enacted in HK. We would also urge Hong Kong to seek a DTA with the United States of America. If this is unlikely to happen then we urge the Government to clarify how it will deal with the US and the possible threat of being "blacklisted" as a tax haven or Official Secrecy Jurisdiction.

  More generally the Government must remain robust in its defence of Hong Kong in the face of suggestions that is an abusive or uncooperative "tax haven".

- **Broadening the Tax Base** – the prospect of several years of budget deficits could deplete Hong Kong's reserves, and if new businesses are discouraged from setting up in Hong Kong, whether in the traditional four pillars or in the new six pillars sectors, this coupled with the Government's increasing financial obligations in respect of Hong Kong's increasing and aging population may reignite the debate on the need to broaden Hong Kong's tax base. Recognising that broadening the base whilst preserving the competitiveness and simplicity of Hong Kong's tax regime is a challenge, we would urge Government to take a proactive and visionary approach to this issue.

- **"Arm's length" Transfer Pricing Principles** – the decision in the Ngai Lik Electronics case has brought the "arm's length" transfer pricing principle into Hong Kong case law from a tax perspective. Given the importance of this area, statutory backing to these principles should be considered rather than just relying on the guidance contained in the recently issued DIPN45 and DIPN46, neither of which have the force of law.

- **Group Taxation** – the decision in the ING Barings Securities case again highlighted the deficiencies in Hong Kong taxation regime in that the IRO does not make any provision for taxation of groups of companies. The lack of any "group relief" type regime is a disincentive to locating and or running a group of companies from Hong Kong. We would urge the Government to review this area again and to and consult with industries and other interested parties on ways to update the legislation. Furthermore, to improve overall efficiency and relationship with its customers, the IRD should ensure that the tax affairs of companies, which are members of the same group, are reviewed by the same Assessor or Assessing Unit.

- **The Board of Review** – the ING Barings case also highlighted (in Oct 08) the inadequacies of the Board of Review and of the "case stated" procedure, which only allows an appeal on a matter of law. We understand the Government is considering some amendments to the case stated procedure, we hope this can be announced and put into effect as soon as possible.

- **Taxation of Manufacturing Operations** – certain "contract processing manufacturing" arrangements between Hong Kong manufacturers and their factories in China have historically had a favourable Hong Kong tax treatment, i.e. the "50/50" regime for manufacturing profits as outlined in DIPN 21. These beneficial arrangements do not apply to "import processing" arrangements between a PRC factory and a Hong Kong trading company, the profits from which are fully taxable, notwithstanding that the substance of such arrangements is often very similar to that of the contact processing arrangements. This difference in treatment between contract processing and import processing manufacturing, together with the potential denial of tax relief for plant and machinery items used in import manufacturing businesses outside Hong Kong are areas of concern to members of the BCC. Moreover, many manufacturers have become wholly PRC based and claim full depreciation allowances on plant and machinery expenditure, in the PRC, where they also benefit from full VAT recoveries. The Hong Kong Government needs to address the impact of the new PRC Corporate Income Tax laws (in 2008) and changes to VAT rules in the PRC (in 2009) on the manufacturing business base in Hong Kong, as this is now not advantaged by the tax rules in Hong Kong, and comprises one factor involved in the shrinking of the manufacturing sector in Hong Kong. We would urge the IRD and Government to review and modernise the taxation treatment of all manufacturing arrangements so as to make them more attractive and to encourage the manufacturing sector, which is noticeably shrinking in Hong Kong.

- **Taxation of employees** – we would urge the IRD and Government to review the taxation of employees to eliminate the distinction between a "Hong Kong" and "non-Hong Kong" employment contract so as to allow all employees to be taxed only in respect of their services performed in Hong Kong on a time apportioned basis. This will make Hong Kong a more attractive place for those employees who travel extensively in the course of their work to live and base their families here.
- **Tax measures to encourage a Bond Market**. – all interest and gains on Hong Kong issued bonds should be tax exempt from tax in Hong Kong, the Stamp Duty position should also be confirmed as exempt. Tax measures to encourage and support the internationalisation of the RMB should also be considered in collaboration with the industry.
- **Pensions' Reform –** a comprehensive review of MPF and ORSO schemes is suggested so that pensions are available for all people, and so that not only employees or the self-employed can be covered by such schemes. Tax relief for voluntary or additional contributions may be given, so that all people can save in times of plenty, for a rainy day.

The overall conclusion must be that the Hong Kong Inland Revenue Ordinance, which is now over 60 years old, is long overdue for a detailed review and modernisation.

Proposals and recommendations

In summary, the main recommendations of the British Chamber of Commerce in Hong Kong for the 2010-11 Budget are:

- No changes in tax rates, bands or allowances.
- Targeted tax incentives to promote and encourage development of the six new pillar industries identified by the Government for focused development (i.e. educational services, medical services, testing and certification, innovation and technology, cultural and creative industries and environmental industry), including:
    - Exemptions from tax on intellectual property (IP) created in Hong Kong and registered here. Full or partial exemptions from Profits Tax on income form the exploitation of IP developed and registered here in Hong Kong would encourage companies to undertake such activities here. Such a measure would impact particularly on medical, innovation and technology, cultural and creative and environmental industries.
    - Reduced tax rates on a time limited basis, say for the first three years of operation, for profits derived from certain qualifying activities in these industries, such as educational, and testing and certification services.
    - Accelerated or enhanced tax deductions for certain qualifying capital expenditure on new buildings, fixtures & fittings, and plant and machinery, with additional relief to encourage development of state of the art "green" facilities.
- Measures to assist unemployed and low income groups, including investment in the delivery of

individual capability assessment and tailored training delivered by the private sector working with and through the Vocational Training Council. Its major focus should be on the younger unemployed in the New Towns.

- Measures to streamline the efficient delivery of the 'Ten Megaprojects' key amongst which is the formation of a Project Coordination Office.
- Continued focus on measures to promote the improvement in Hong Kong's environment; including:
    - Continuing to view environmental improvement in Hong Kong as an investment, not a cost
    - Strengthening the connection between air quality and both public health and tourism, and adopting a wide range of taxes, fines and incentives aimed at changing behaviours to improve Hong Kong's environment.
    - Embedding low carbon initiatives into its strategy for enhancing the economy, including ensuring environmental protection and climate change initiatives are wholly integrated into its plan for infrastructure development.
- Restraint in Civil Services pay rises.
- Measures to help Small and Medium-sized Enterprises (SMEs), including:
    - Measures to assist SMEs to preserve jobs and retain employees these would include the reintroduction of the SME Training Fund and the extension of the SME Loan Guarantee Scheme (LGS) and Special Loan Guarantee Scheme (SLGS) to the end of 2010.
    - Other taxation measures which are set out above. Finally concerted efforts to reduce the amount of 'red tape' involved in setting up a business in Hong Kong.
- A review of the MPF and pensions sector is long overdue, it can cover persons who may no longer be in employment.
- Measures to make Hong Kong's tax regime more competitive and more business friendly, including:
    - Urgent conclusion of the legislative process to update Hong Kong's legislation to allow the adoption of modern exchange of information ("EoI") exchange standards.
    - Expansion of Hong Kong's network of Comprehensive Double Taxation Arrangements ("CDTAs") with major trading partners.
    - Time limited and or targeted tax incentives to facilitate and encourage the growth and development of the pillar industries.
    - Amendments to the taxation of employees to eliminate the distinction between a "Hong Kong" and "non-Hong Kong" employment contracts so as to allow all employees to be taxed only in respect of their services performed in Hong Kong on a time apportionment basis.
    - Revisions to the mode of operation of the Board of Review, and rewrite of the Inland

Revenue Ordinance.

    - Introduction of a Group Taxation and or “loss-back” regime in Hong Kong.
    - Modernisation of taxation of manufacturing operations.

- Implement the legislative framework for FATF Anti-Money Laundering provisions so that they operate fully in Hong Kong.

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